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USSR: Partial reports on yesterday's Supreme Soviet session reveal a slight increase in the explicit defense budget for 1970 as well as a low rate of growth planned for industrial production.

According to Finance Minister Garbuzov, defense spending will be 17.9 billion rubles in 1970, an increase of only one percent over the amount planned for this year. This increase is the smallest since 1965. The published defense budget, however, excludes most spending for military research and development and the space program. These programs are largely financed by the science budget, which has not yet been announced.

The small rise is consistent with intelligence estimates of total Soviet spending for defense and space programs. These estimates indicate Soviet spending for these programs in 1970 of about 22.2 billion rubles or the equivalent of about \$66.5 billion if the programs were purchased in the US. The small increment is also consistent with the image of moderation the Soviets are attempting to project at the preliminary Strategic Arms Limitations Talks.

State plan chairman Baibakov proposed only a small increase of 6.3 percent for industrial production in 1970. This indicates little hope for improved performance during this last year of the current five-year plan period. The industrial growth rate this year has been a disappointing seven percent, the lowest registered since 1946.

Baibakov also announced that this year's grain harvest was six percent below that of 1968, and over-all agricultural output fell by three percent.



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USSR-Japan: The Soviet Union has issued its strongest and most authoritative attack to date on Prime Minister Sato's foreign policy.

A stinging editorial in yesterday's Pravda denounced the "American-Japanese deal" struck at the recent Nixon-Sato talks as a "new military-political alliance between...two powerful imperialist states, which is openly aggressive in nature." It also warned against Japanese revanchism on the northern territories issue and claimed that it "may lead to dangerous aggravation of tension in the Far East."

The strong Soviet attack was obviously prompted by next week's Japanese election and associated issues. Sato has clearly stolen the thunder on foreign policy matters from his left opposition by the Okinawa agreement. His announced willingness to hold high-level talks with the Chinese has also made him less vulnerable to opposition charges of inflexibility toward Peking. In addition, he has publicly made it clear that his administration intends to intensify its campaign to get back the northern territories.

Moscow has been placed on the defensive by the Okinawa agreement and the resultant "anti-Soviet" agitation on the northern territories. Japan's recognition in the Sato-Nixon communiqué of a legitimate US security and peace-keeping role in Asia as well as the planned extension of the US-Japanese security treaty next year are undoubtedly the catalysts for the charge of a new "military-political alliance."

Although the Soviets have been making modest efforts to improve their image and position in Japan, Moscow has long felt that the Japanese tend to act as a US surrogate in Asia. The Soviets apparently believe that they must make some response to the recent movement in US-Japanese relations.

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In addition, Sato's recent expression of willingness to talk with Peking can only be regarded with uneasiness in Moscow. Russian unhappiness with Sato's present course, however, is not likely to affect Soviet efforts to encourage economic contacts with Japan, and Moscow will be very careful about going beyond words to show its displeasure.



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Libya: Negotiations on the status of Wheelus Air Base have begun on a harsh note.

Rejecting a US proposal to phase withdrawal over a one-year period, the Libyan delegation headed by junta leader Qaddafi asserted in a preliminary public session that there was no justification whatever for a US military base in the country. He charged the US with using the base to train Israelis as well as to engage in sabotage and smuggling. In this last respect, the incident in which an American civilian schoolteacher was involved in the exfiltration of a Libyan Jew was specifically mentioned.

In the private session that followed, the Libyans demanded that all US forces be voluntarily evacuated within the "very near future," repeatedly asserting that the US must withdraw well before the end of 1970. The Libyans said that their government intends to use Wheelus as a military base.

Inasmuch as the Libyans' tough stance was successful in obtaining British agreement for a speedy withdrawal from UK bases, they can be expected to maintain their adamant position in the next round of talks on Thursday.

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[Panama: The National Guard officers who attempted to oust Panamanian strongman General Torrijos have themselves been ousted by forces loyal to the general.

Torrijos returned to Panama late Monday night and successfully rallied his supporters in the western provinces. When word of his return reached Panama City, loyal troops moved on Guard headquarters. By afternoon they had gained control of the city and the general was able to begin the final leg of his triumphant motorcade back to the capital.

Colonels Silvera and Sanjur, leaders of the coup attempt, have been arrested and will be tried for subversion. The titular leaders of the Provisional Junta Government, Pinilla and Urrutia, who supported Torrijos' ouster, have been detained; however, Torrijos has not yet removed these figureheads from office.

A period of readjustment and reorganization will follow as Torrijos attempts to consolidate his position. Changes in the Guard hierarchy and in the government are likely in the next few weeks. Torrijos' distrust of the oligarchy has almost certainly been reinforced by indications that members of the oligarchy supported his ouster. The general will probably go ahead with plans to form an official party which would exclude the traditional oligarchy-dominated parties from participation in the political process.

The embassy reports that a rumor is circulating that the US Government was somehow involved in Sanjur's attempted ouster of Torrijos, and believes this might have a complicating effect on US relations with Panama. [REDACTED]

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Guatemala: Recent terrorist attacks in the capital may signal the beginning of Communist efforts to disrupt the election period.

Three police detectives were gunned to death Sunday, and two terrorists were killed on 12 December when they attacked police and murdered three persons at the home of the vice minister of government. One of the dead terrorists was the son of prominent leftist Marco Antonio Villamar Contreras and was a known member of the Communist Rebel Armed Forces (FAR).

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A band of FAR guerrillas in the northwest continues to evade counterinsurgent forces that have been pursuing them since late November. There are some indications that several guerrillas have been wounded, but none has been captured as yet.

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Dahomey: Cotonou remains in a state of general confusion as a divided military attempts to sort things out.

Little has been heard from the three-man military directorate that was formed late last week, and discussions among army officers are continuing. Coup leader Lieutenant Colonel Kouandete appears to be losing ground as these talks proceed. The military is divided over a number of issues, including demands from some officers that former president Alley, Kouandete's archrival and predecessor as chief of staff, be released from jail. A key armored unit has quit Cotonou in disgust and has returned to its base in a nearby town.

All ministers in deposed president Zinsou's government, who had initially agreed to stay at their posts, resigned yesterday. Although they claimed their action was to protest the army's refusal to debate Zinsou on the reasons for the coup, they reportedly feared they were about to be ousted by the military. Zinsou, who is free again following a brief period of detention, may have gained some support among civilians since his ouster. The three civilian ex-presidents--Maga, Apithy, and Ahomadegbe--have returned from exile and have all been met by large crowds of their regional followers. They reportedly will meet soon with the military to begin talks on Dahomey's future government. These three regional leaders, however, have rarely been able to agree in the past, and their presence in Cotonou does not bode well for future stability.



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IAEA: The International Atomic Energy Agency (IAEA) is under increasing pressure to establish the position it will take on nuclear safeguards arrangements to be concluded pursuant to the nonproliferation treaty (NPT).

As entry into force of the treaty draws near, its provisions in the area of safeguards assume critical importance. Under Article 3 of the NPT, all nonnuclear-weapon states party to the treaty must begin safeguards negotiations with the IAEA within six months of its entry into force. Agreements between the IAEA and these states to prevent the diversion of fissionable material from peaceful uses are to be concluded within 18 months after the beginning of negotiations.

The UK wants the IAEA to set up a safeguards committee at its Board of Governors meeting in February. The committee would--under terms of a British draft resolution--advise the board on the desirable form and content of a "widely applicable" safeguards agreement. The UK hopes that IAEA members who have not signed the NPT will do so once they participate in defining the IAEA position on safeguards.

The problem of negotiating a safeguards agreement with the European Atomic Energy Community (EURATOM) is particularly thorny and important. A way will have to be found to define the respective jurisdictions of the two organizations in carrying out the safeguards function. Should the IAEA concede too much to EURATOM's own system, this could encourage the creation of other regional systems seeking similar privileges. Bonn's recent signature of the NPT appears to have quickened interest within the European Commission--the executive body of the European Communities--regarding the formulation of EURATOM's negotiating position. It is expected that during the first half of 1970 the Commission will seek a mandate from the Council of Ministers of the European Communities to begin talks with the IAEA on a safeguards arrangement.

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Peru: The foreign debt renegotiations appear to be progressing normally. US private banks have agreed to refinance 50 percent of the payments due during 1970-72, and Peru's European creditors have agreed in principle to refinance a minimum of 60 percent of the payments due during 1970-71 on all loans not previously refinanced. Peru reportedly has reached a final agreement with Italy to refinance 75 percent of payments not previously refinanced. Despite this progress, the finance minister has bitterly assailed Peru's creditors for their lack of understanding, possibly to ward off future charges of a sell-out to the bankers. [REDACTED]

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Czechoslovakia: The Husak regime has launched its second purge of the sluggish Prague municipal party apparatus--the most important regional party organization in the country. The leadership, at yesterday's extraordinary session of Prague party officials, demanded the ouster of the remaining "right-wing opportunists" and other individuals who are failing to implement party directives. Archconservative Antonin Kapek was named chief of the Prague city party committee, replacing a more moderate conservative. It is too early to assess the political implications of the shift. Kapek probably will reshuffle a number of party committees attached to the city's educational, scientific and industrial installations. [REDACTED]

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Hungary-Czechoslovakia: Hungarian party boss Kadar's expected visit to Prague today involves more than the desire to keep in touch with the new Czechoslovak leadership. It also reflects Hungarian concern over the conservative trend in Czechoslovakia and its potential effects on the political atmosphere in Eastern Europe. Kadar, the most innovative and reformist leader in the Warsaw Pact countries, wants to probe Husak's intentions. Kadar will probably cite his practical experience in charting a middle course between conservative and liberal extremes.

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Malaysia-Philippines: Relations between the two countries have been resumed, Prime Minister Rahman announced at the ministerial meeting of the Association of Southeast Asian Nations (ASEAN) yesterday in Malaysia. In the interests of giving ASEAN the appearance of a going concern, both countries have apparently sidestepped, temporarily at least, the problem of resolving Manila's persistent challenge to Malaysia's sovereignty over Sabah. As long as the issue is on the back burner, Kuala Lumpur may believe there is a good chance of negotiating a deal with Manila concerning Sabah while Marcos, having just won re-election, may feel in no need of this issue to distract his public from pressing domestic problems.

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